Contact: Mark Primoff
845-758-7412
primoff@bard.edu

FOR IMMEDIATE RELEASE

TRUMP ECONOMIC POLICIES LIKELY TO WORSEN RATHER THAN SOLVE STRUCTURAL WEAKNESSES UNDERMINING U.S. ECONOMIC GROWTH, NEW LEVY INSTITUTE STUDY SAYS

U.S. Economic Growth Constrained by Income Inequality, Fiscal Conservatism, and Weak Performance of U.S. Exports

ANNANDALE-ON-HUDSON, N.Y.— While financial markets have responded with exuberance to the election of Donald Trump in anticipation that his radical economic policy proposals will increase profitability by boosting growth and cutting personal and corporate taxes, it remains to be seen, 100 days into his presidency, which, if any, of President Trump's campaign promises will ever become policy. A new study from the Levy Economics Institute of Bard College argues that neither Trump's proposals nor a continuation of Congress's fiscally conservative business-as-usual policies will solve the three main structural problems in the U.S. economy—income inequality, fiscal conservatism, and the weak performance of net exports—that led to the financial crisis and Great Recession, and that continue to be responsible for the disappointing stagnant growth that underlies the slowest economic recovery of the postwar period.

"Economic policy measures under the new administration are unlikely to produce a significant boost to economic growth, either because there is a misidentification of the underlying problems faced by the U.S. economy; or because the measures proposed correctly identify those problems but are insufficient to solve them; or because some of the proposed measures seem unlikely to generate sufficient support in a fractious Republican caucus and are not likely to be passed into law," write Levy Research Scholars Michalis Nikiforos and Gennaro Zezza in their Strategic Analysis, *The Trump Effect: Is This Time Different?* "The policy proposals of the new administration are unlikely to solve any of the three aforementioned fundamental problems. If anything, the situation will worsen, especially with regard to income inequality."

While Mr. Trump may have touched on these structural problems during the campaign—with his harsh rhetoric on trade and promises of major public infrastructure investment—his proposals were often radically different and contradictory depending on which audience he was addressing. "At the same time that he was courting the white working class of the rust belt with the promise of high-paying jobs, he was proposing tax cuts that would mainly benefit corporations and wealthy households, based on a supply-side 'trickle-down' argument," the Levy scholars write. "This might have been convincing in the early 1980s, but the three and a half decades that followed have disproved it."

Nikiforos and Zezza highlight how the increase in income inequality over the last four decades has constrained the economy by redistributing purchasing power from low-income households with a high propensity to consume to rich households whose propensity to consume is much lower. “This is an impediment to aggregate demand and growth, especially since private investment expenditures have not responded to the increase in profit flows that has been the consequence of the increase in income inequality,” they write, stressing that, while borrowing by the household sector became the engine of growth for the U.S. economy prior to the Great Recession, high inequality and fragile balance sheets have led to the slowest increase in consumption expenditures compared to any previous postwar recovery.

Based on the initial evidence of Trump’s presidency—from the zero-sum character of the administration’s first budget proposal to the unprecedented leverage gained by the fiscally conservative wing of the Republican Party during the recent health-care bill negotiations—the Levy scholars conclude that fiscal conservatism will remain the order of the day. “The example of the budget proposal is telling: the increase in defense spending will be matched by decreases in spending in a number of other areas like the environment, labor protection, research and education, foreign aid, and improved transportation facilities,” they write. “Looking at the long run, the widespread cuts could have significant negative effects on the growth prospects of the U.S. economy. For example, most economists—even those with a ‘supply-side’ mind-set—would agree that cuts in education and research will have a negative long-run effect on the growth rate.”

Assuming the fiscal stance of the federal government to remain largely neutral, and absent an economic downturn, the Levy scholars’ baseline forecast for the medium-term prospects for the U.S. economy is one of continued slow growth in line with the postcrisis trend, but they warn, in a second scenario, of the dangers of a sharp “correction” in financial markets. “Depending on the specific measure chosen, the valuation of the markets compared to the value of output or earnings is either at its highest level in recorded history or at levels similar to the fall of 1929 or the late 1990s,” they write. “The situation is made even worse by the baseless optimism of the postelection period. A sharp ‘correction’ in the financial markets combined with another round of private sector deleveraging could destabilize the fragile recovery and lead to another crisis.”

# # #

Strategic Analysis: *The Trump Effect: Is This Time Different?*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org/publications/the-trump-effect-is-this-time-different.

(5.2.17)